

A Leader in Accounting Education

Accountancy@UJ**DEPARTMENT OF ACCOUNTANCY****TAXATION 200 (TAX2AB0)****FINAL ASSESSMENT OPPORTUNITY: 5 NOVEMBER 2015****TIME: 150 Minutes****MARKS: 125**

ASSESSORS: Ms M Wassermann
Mr J Wessels

MODERATORS: Ms L Barnard
Mr J Olivier

INSTRUCTIONS TO CANDIDATES

1. This paper consists of 8 pages.
2. You are reminded that answers may **NOT** be written in pencil. **NO** tippex may be used.
3. The marks shown against the requirement(s) for every question should be regarded as an indication of the expected length and depth of your answer.
4. Answer the questions by the use of:
 - effective structure and presentation;
 - clear explanations;
 - logical arguments; and
 - clear and concise language.
5. Show all calculations clearly.
6. Round all amounts to the nearest Rand.

Question	Marks	Time allocated (minutes)
1	31	37
2	25	30
3	37	44
4	10	12
5	22	27
Total	125	150

QUESTION 1

31 MARKS

JJ le Grange is a computer expert, he sells computer hardware, and specialises in computer applications (“apps”) and games. He trades as a sole proprietor in the name “JJ’s Apps”. JJ has a few questions regarding Value-Added Tax. JJ is a registered VAT vendor and situated in Johannesburg. All amounts include VAT where applicable.

Query 1

(5 marks)

The Taxation 200 lecturers from the University of Johannesburg requested JJ to write a game application for taxation. In the game, student’s knowledge on taxation will be tested. Students would be able to move forward levels if they can answer tax related questions correctly.

Required:

Discuss whether the creating and selling of a computer “app” will be subject to VAT?

Query 2

(4 marks)

JJ purchased a brand new double cab bakkie from a Toyota dealer that he will use to deliver computer hardware to clients. He prefer the double cab above a normal single cab bakkie as he believes it is safer to travel with the computer hardware in cab of the vehicle. He paid R380 000 for the double cab bakkie. He then purchased a branded canopy to cover the back of the bakkie from Brands R Us (Pty) Ltd for R14 400.

Required:

Discuss and calculate (if applicable) the VAT consequences for the purchase of the double cab bakkie, as well as the canopy added to the bakkie?

Query 3

(3 marks)

JJ took the tax lecturers for lunch to discuss the first edition of the game he developed for them. He paid R640 for the lunch, of which R205 was for his own lunch.

Required:

Explain and calculate (if applicable) in detail to him if he would be able to claim the VAT paid for the lunch.

Query 4

(5 marks)

JJ purchased a second hand 3D printer that can print plastic screws and other small hardware. He purchased in from a South African non-vendor at a market related price of R56 000. The non-vendor originally paid R65 000 for it. For the current VAT period JJ only paid 50% of the VAT due.

Required:

Explain and calculate (if applicable) the VAT consequences of this transaction to JJ.

Query 5

(11 marks)

JJ issued an invoice to the University to pay a deposit of R50 000 for the game on 1 February 2015. The University paid on 15 March 2015. The deposit will be refunded in total if the lecturers are not satisfied with the end product. The end product will only be delivered by 30 November 2015, and the budgeted price is around R500 000.

Required:

Explain the following to JJ with regards to this transaction:

- The VAT consequences for JJ of the issue of the invoice to University of Johannesburg; and (3)
- Whether the deposit amount of R50 000 should be included in JJ's taxable income for the 2015 year of assessment (refer to applicable case law). (9)

Query 6**(3 marks)**

JJ did consider to exclude the R50 000 amount due from University of Johannesburg from his Gross Income (in the current and any future year).

REQUIRED:

Explain to JJ if this would be tax avoidance or tax evasion, and the difference between the two.

QUESTION 2**25 MARKS**

John Farmland is a 46 year old resident of the Republic of South Africa. His family has been farming on a 600 hectare farm in the Eastern Free State for years. John has supplied you with the following information relating to his 2015 year of assessment.

Receipts and Accruals	Notes	Amount (R)
Produce sold		77 800
Livestock sold		75 500
Subsidy received for new dam		6 250
Interest		27 300
Purchased annuity	4	15 000
Director's fees: service on board of local co-operative society		500 000
Expenditure		
Livestock purchased		221 300
Farm operating costs – all tax deductible		52 250
Dam construction costs		11 950
Fencing Costs	3	24 000
Eradication of noxious plants		4 250
Prevention of soil erosion		3 400
Sinking of borehole and pumping plant		6 050

Notes:

1. Opening and closing stock information obtained for the year of assessment was as follows:

Produce:

	Opening stock (R)	Closing stock (R)
Market value	7 600	9 100
Average cost of production	6 400	9 400

Livestock:

	Opening stock number	Closing stock number
Bulls	150	150
Cows	450	550

The standard values for livestock has been confirmed by Mr Farmland as:

Bulls: R50

Cows: R40

2. Purchase of tractor

John purchased a brand new John Deere tractor from the dealer in Bethlehem on 20 May 2014. The tractor was immediately brought into use and cost R110 000. As the farm is situated far-away from the nearest town and John did not want to waste planting time travelling, she purchased R9 000 worth of spare parts for the tractor.

3. During the year of assessment Mr Farmland spent the following money on his fences:

- a. Erection of new fences: R14 000
- b. Maintenance on existing fences: R10 000

4. John purchased an annuity from Old Mutual Life Insurers at R420 000 on 1 December 2014. He receives a monthly annuity of R5 000 since 1 December 2014. The capital portion that is calculated in terms of section 10A amounts to R1 100 per monthly annuity.

REQUIRED:

Calculate Johan Farmland's taxable income for his 2015 year of assessment.

NOTE: YOU CAN IGNORE VAT FOR THIS QUESTION

QUESTION 3

37 MARKS

Anderson Rackets (Pty) Ltd is a sports equipment manufacturer. They specialise in rackets (tennis, squash, badminton and so forth). The process is a process of manufacture as defined. Anderson Rackets (Pty) Ltd is a registered VAT vendor and the company has a 30 September year end. The accountant has prepared the financial statements and the company has a net profit before taxation of R420 000.

The following information (taken from the trial balance and relating to the 2015 year of assessment) was taken into account correctly (where applicable) in the above net profit figure:

1. The company had an expense for annuities paid:
 - i. R1 000 per month from 1 February 2015 to Rodger Feds (a former employee who resigned at the age of 24 to become a professional squash player).
 - ii. R600 per month paid to the dependants of a former employee. This amount has been paid since 1 August 2012.
2. The company's driver got a number of traffic fines. The amount of the expense on the financial statements amounted to R3 500.
3. Anderson Rackets (Pty) Ltd wrote off trade debtors to the value of R45 600 during the year.
4. The accountant's provision for bad debts amounted to R25 000. This amounted to 10% of trade debtors of R200 000 and then R5 000 specific debtors who were known to be doubtful. There is a list detailing the above specific debtors.
5. Anderson Rackets (Pty) Ltd paid Ruelle Nadal an amount of R200 000 as a restraint of trade for the next 2 years. This amount was paid on 1 September 2015. The accountant wrote the amount off in full in this year's financial statements.
6. Anderson Rackets (Pty) Ltd's factory workers wear a uniform. These are blue overalls which have the company logo printed on the back. Included in the Salaries and Wages expense is an amount of R17 100 which relates to the uniform allowance paid to factory workers.
7. Anderson Rackets (Pty) Ltd does not capitalise consumable stores for accounting purposes. Included in net income before tax is an amount for all consumable stores that were purchased and expensed in the current financial year. The auditors however insisted that a stock count is performed on consumable stores at the end of its financial year. The stock count revealed that consumable stores on hand at 30 September 2015 were R28 000 (excluding VAT). This amount was not taken into account in the accounting records.

8. Anderson Rackets (Pty) Ltd was awarded R87 500 in damages as a result of successful legal action instituted by Anderson Rackets (Pty) Ltd against a competitor who was manufacturing pirated squash rackets under the trade mark of "Anderson Rackets".

9. A breakdown of the company's legal expenses included in the net income before tax calculation was as follows:

i.	Collection of trade debtors	4 800
ii.	Labour negotiations	3 600
iii.	Successfully defending the use of the trade mark "Anderson Rackets"	<u>12 500</u>
		<u>20 900</u>

10. Depreciation calculated on assets consists of:

- i. On 1 October 2014 Anderson Rackets (Pty) Ltd commenced with the erection of six two-bedroomed cottages located within close proximity to its factory. The land was purchased during its 2014 year of assessment at R57 000 (including VAT). The six cottages were completed on 30 March 2015 at a cost of R413 250 (including VAT) each. As from 1 April 2015 six bona fide full time employees of them occupied these cottages. For accounting purposes depreciation is calculated over a 10 year write-off period. The six employees are not required to pay a rental for the cottages that are supplied to them unfurnished. Electricity and water costs are paid for by the employees.

11. Included in the trial balance was an amount in respect of rent paid. Anderson Rackets (Pty) Ltd pays rent on its office building. According to the legal documents a deal was struck with the landlords according to which Anderson Rackets (Pty) Ltd could pay a reduced rental of R10 000 (excluding VAT) per month if they were prepared to pay the rent for 24 months up front. On 1 October 2014 the accountant made a payment of R240 000 (excluding VAT).

12. An annual royalty of R62 700 was paid by Anderson Rackets (Pty) Ltd for its 2015 year of assessment. Under its license agreement, it is required to pay the royalty to Anderson Rackets Plc situated in the United Kingdom by the 30th of April each year.

13. Anderson Rackets (Pty) Ltd earned investment income from the following sources:

i.	Dividends from South African companies	R200 000
ii.	Dividends from an American company	R50 000
iii.	Interest from their local bank	R30 000

The accountant did not take the following information into account at all (amounts are inclusive of VAT where applicable):

- a) The company gave new rackets from trading stock with a cost price of R20 000 (excluding VAT) and a market value of R42 000 (excluding VAT) to the employees for no consideration as compensation for overtime worked during the month.
- b) Anderson Rackets (Pty) Ltd uses a special machine to make the nylon string used on the rackets. The machine was purchased new and unused on 1 March 2012 at a cost price of R800 000. The machine was taken into use immediately. The Commissioner has acknowledged that this machine is used in a process of manufacture. However, the company realised that it will be cheaper to import the string than to manufacture it. The machine was sold on 1 June 2015 for R900 000. The accountant did not take any entries in respect of the machine into account.

REQUIRED:

Calculate the normal tax liability of Anderson Rackets (Pty) Ltd for its 2015 year of assessment. Start your calculation with its net profit before tax of R420 000.

QUESTION 4

10 MARKS

Donald Republic-Trump, aged 55 years, and a resident of the Republic, is adamant that he must not become liable for additional tax, interest, or penalties for his provisional tax payments. He endeavors to pay the correct amount of provisional tax and he ensures that the payment is made by the correct date.

Certain details of his tax transactions follow:

- His 2013 taxable income was R200 000.
- His 2013 tax assessment was received on 1 November 2013.
- His 2014 taxable income was R225 000.
- His 2014 tax assessment was received on 1 October 2014.
- His 2015 taxable income is R270 000.
- His 2015 tax return (IT 12) was submitted on 1 May 2015.
- His 2015 tax assessment has not yet been received.

No portion of Donald Republic-Trump's taxable income is from 'remuneration' as defined. His taxable income comprises solely business profits and investment income.

REQUIRED:

Calculate the amount of all provisional tax payments to be made by Donald Republic-Trump for his 2015 year of assessment. Mr Trump wants to pay the minimum amount at each payment date to avoid penalties and interest. State by when each provisional tax payment must be made.

QUESTION 5**22 MARKS**

Mr Goldman (56 years old) is one of the managers of Rand Golden Mines Ltd. He is busy completing his 2015 annual tax return and has asked your advice on a few issues.

He received an annual salary of R1 550 000, and a non-pensionable bonus of R300 000. He contributes 8% of his salary to the RGM pension fund, and Rand Golden Mines contributes 10%. He also pays R5 000 per month into a Retirement Annuity fund.

Mr Goldman has received local dividends of R34 000 and local interest of R85 000.

During the year he disposed of the following assets:

Asset	Purchased	Cost price	Disposed	Selling price
Painting that he purchased as a young man, but does not fit in with his more "mature" style. The market value on 1 October 2001 was R7 000.	April 1995	R5 000	June 2014	R43 000
Shares in Sasol Limited	Oct 2005	R7 500	Jan 2015	R18 000
Time share in Seapoint, Cape Town – The week he owned falls in the financial year end, and Mr. Goldman cannot take leave in that time	Jan 2010	R17 600	Dec 2014	R16 000
Plot of land at Midstream Retire	Nov 2012	R340 000	Feb 2015	R680 000

REQUIRED:

- Explain and calculate the amount Mr Goldman should include and can deduct in terms of his and the company's contributions to the pension fund. (5)
- Explain and calculate the amount Mr Goldman can deduct in terms of his contributions to the Retirement Annuity Fund. (8)
- Calculate the taxable capital gain that should be included in his 2015 income tax calculation. Where an asset is excluded from the calculation you have to provide a reason (7)
- Explain the difference between a company car and a travel allowance to Mr Goldman. (2)